

**INDIANA ARTS COMMISSION
CULTURAL TRUST ADMINISTRATIVE BOARD**

REPORT TO THE INDIANA GENERAL ASSEMBLY

SUBMITTED DECEMBER 4, 2006

To:

The Honorable Speaker of the House; the Honorable Senate President Pro-tem; and
Honorable Members of the Indiana General Assembly,

The Indiana Arts Commission Cultural Trust Administrative Board, created in 1997 by legislation (IC 4-23-2.5) through House Enrolled Act 1358, respectfully submits the following report on the activities of the Indiana Arts Commission's Cultural Trust Administrative Board.

STRUCTURE OF THE CULTURAL TRUST ADMINISTRATIVE BOARD

By statute, this Administrative Board consists of seven voting members including three appointees by the Governor who are not members of the Indiana Arts Commission, three appointees from the Indiana Arts Commission, and the State Treasurer or designee from the Treasurer's Office.

For FY 2007, the board is comprised of the following members:

Steven L. Tuchman, Esq., Indianapolis; chair (IAC appointment)

Richard Stifel, South Bend (IAC appointment)

Judith Hess, Corydon (IAC appointment)

Michael Quinn, Indianapolis (Governor's appointment)

L. Gene Tanner, Indianapolis (Governor's appointment)

Claude Johnson, Crawfordsville (Governor's appointment)

Mike Frick, Indianapolis (State Treasurer's Office appointment)

CULTURAL TRUST ADMINISTRATIVE BOARD COMMITTEE CHARGE

Purpose

The Indiana Arts Commission Cultural Trust Administrative Board is one of the primary standing committees of the Indiana Arts Commission. The function of this Board is stipulated by House Enrolled Act 1358. The Board's purpose is to provide oversight and guidance in the development and administration of the IAC's Cultural Trust Fund, including the development and implementation of investment strategies for the Cultural Trust Fund.

Committee membership

The Cultural Trust Administrative Board is comprised of seven members. Three members of the Board, including the board chairman, are appointed by the Chairman of the IAC. Three members of the Board are appointed by the governor. The final member of the Board is the State Treasurer, or a designee of the treasurer. The Chairman of the Indiana Arts Commission will appoint as Board chairman a current member of the Commission with experience in and / or knowledge of issues pertaining to finance, investments or banking. Each member of the Board will serve a two year term which expires on July 1 of the second year following the member's appointment.

Board responsibilities

As stipulated in House Enrolled Act 1358, the Cultural Trust Fund Administrative Board is charged with managing and developing the fund and the assets of the fund. The Board shall:

- Establish a policy for the investment of assets of the fund
- Acquire money for the fund through the solicitation of private or public donations and other revenue producing activities
- Perform other tasks consistent with prudent management and development of the fund
- Before October of each year, the board shall prepare a report concerning the fund for distribution to the public and General Assembly

Subject to the investment policy established by the Cultural Trust Fund Board, the Treasurer of the State shall administer the fund and invest the money in the fund. The Commission has the sole authority to allocate money from the fund to arts providers in Indiana. The Commission may not use the money from the fund to purchase land or structures.

Board meetings

The Board shall conform to all current Commission policies and procedures related to Commission and Committee meetings. A simple majority of four Board members shall constitute a quorum. The IAC Executive Director or his / her designee will staff the Board meetings.

In the interest of effective use of meeting time, the Cultural Trust Fund Administrative Board will also observe consent agenda voting on items of routine business (e.g. approval of agendas, minutes, etc.). Consent agenda items will be posted on the IAC website:

(www.IN.gov/arts) prior to the meeting date. Board members should review and make recommendations for changes as needed prior to the meeting.

The number of meetings will be determined by the Board as needed to conduct its duties effectively **with a minimum of two meetings held each year.**

Background of the Cultural Trust

The concept for Indiana's Cultural Trust Fund resulted from federal budget cuts in 1995 that resulted in significant reduction in annual appropriations to the IAC from the National Endowment for the Arts. The Commission looked at examples of cultural trust funds in other states as a means to develop over time a more stable cultural funding source less influenced by federal budget changes.

The concept was to provide a dedicated fund that could accept direct contributions from individuals, corporations, foundations, trusts, and other sources both private and public. Contributions made to the fund would be invested by the State and interest income earned from those investments would come back to the IAC to be used to augment state and federal appropriations for arts programming and services.

Background on the Enabling Legislation

Through the efforts of Commissioner Hurley Goodall, a former state legislator, draft legislation was prepared in 1996 and introduced for the 1997 legislative session. Authored by Rep. Sheila Klinker (D-Lafayette), Rep. Sue Scholer (R-West Lafayette) and Rep. Tiny Adams (D-Muncie), HB1548 outlined the Cultural Trust Fund, how it would be developed, and the method for management of the Trust by an Administrative Board. The initial funding mechanism would be a special issue license plate. Other unspecified funding sources were permitted through the legislation. The bill was passed in the House 98 to 1.

During Senate deliberation, the Bureau of Motor Vehicles offered an amendment to the bill regarding the establishment of minimum sales quotas for special issue license plates. A number of veterans' groups opposed the amendment due to concerns over possibly elimination of a veterans-related plate. On the advice of the bill's Senate sponsor, Sen. Allie Craycraft (D-Selma), the language regarding the Arts Trust license plate was removed from the bill. The Senate passed the bill unanimously, but the legislation contained no specific funding source.

The Cultural Trust Fund legislation was passed as House Enrolled Act 1358 and was signed into law by the late Governor Frank O'Bannon.

Initial Funding Source and Fund-Raising Efforts

In 1998, the initial funding mechanism for the Cultural Trust Fund was established when House Bill 1145 was passed into law. The bill established 11 new special issue license plates in the state, including one identified as the Arts Trust plate. The sale of each license plate would result in a \$25 contribution to the Cultural Trust Fund. The license plate fees for the Arts Trust plate are collected from the Bureau of Motor Vehicles and directed to the Auditor's Office for the Cultural Trust Fund.

The Indiana Arts Commission also made a preliminary presentation to The Lilly Endowment regarding a direct contribution to the Cultural Trust Fund to match anticipated state funds. At that point, it was brought to the attention of the Commission that the enabling legislation contains a significant hurdle to encouraging private contributions. That hurdle was the \$50 million threshold amount the Trust would have to reach before triggering annual interest disbursements to the Arts Commission for arts programming.

Background on the Arts Trust License Plate

The Arts Trust license plate joined Indiana's special issue plate market in March 2000 selling 743 units during that first year and generating \$18,575 toward the Cultural Trust Fund.

With a BMV imposed moratorium on point of purchase marketing, and with minimal IAC resources for additional marketing strategies, the Arts Commission launched a campaign to spread the word about the Arts Trust plate. Engaging arts organizations, performance and exhibition venues and arts related businesses in communities throughout Indiana, the Arts Commission distributed information brochures and key chains to potential plate customers. Color advertisements were also placed in *Arts Indiana* magazine, *NUVO News Weekly*, and grantee performance programs.

Since that first year of plate sales, the Arts Trust plate continues to be among the top 10 selling special issue plates out of nearly 50 such plates available in Indiana.

Cultural Trust Administrative Board Activity

The Indiana Arts Commission Cultural Trust Administrative Board began official meetings in February of 2005. Prior to this date, the Board had been inactive due to vacancies on the Board as the result of death and lateness of replacements and reappointments.

Since the first meeting, the Administrative Board has been very active developing three key strategies. The first task was to secure Arts Trust license plate revenue and monitor investment. The second strategy has been to develop a plan to modify the Cultural Trust Fund legislation, and the third was to develop and launch a fundraising campaign to augment revenue generated by the sales of Arts Trust license plates.

Investing Arts Trust revenue

The board quickly agreed with the State Treasurer's designee that revenue from the sale of Arts Trust license plates should have been invested from the moment the plates went on sale. However, due to unfilled vacancies the Administrative Board was inactive for an extended period of time and thus no directive was made to the State Treasurer's Office to invest the funds.

The first act of the Administrative Board in February of 2005 was to request the Treasurer's Office invest the funds. The State Treasurer's Office also calculated the average interest earned since inception and credited interest earned back to the Arts Commission Cultural Trust Fund. The license plate revenue is being invested in a series of short term certificates of deposit with the most current rate of interest reported at 5.59% (September 2006).

Modification of Cultural Trust Legislation

Efforts to secure other private sector investment in the Cultural Trust were hampered by language in the legislation requiring the Trust to achieve a corpus of \$50 million before the Indiana Arts Commission could access interest income. Most potential investors approached by the Arts Commission agreed such a threshold amount could not be achieved in the foreseeable future. In fact, the Arts Commission's own budget analyst estimated at the current rate of plate sales growth, it would take between 75 and 80 years to reach the \$50 million mark.

The Board further learned that the Cultural Trust legislation is the only trust legislation in the state that requires such a threshold be reached before the public invested funds can be used to serve the public. The Board agreed that not only was the \$50 million threshold a significant hurdle to corporate and private donors, it also posed the potential for bad publicity for the Arts Trust plate, the Cultural Trust, the Indiana Arts Commission, and the State of Indiana.

With the assistance of the Governor's staff, Rep. Eric Allen Koch was approached to be the House author of an amendment to address the issue of reducing the threshold amount on the Cultural Trust from \$50 million to \$1 million. The initial House introduction of this amendment was rejected, however the House later accepted the amendment during consideration of a Senate sponsored bill addressing motor vehicle issues. The bill with the cultural trust amendment was approved in the House, and also approved without discussion in the Senate.

Cultural Trust Status

The Indiana Arts Commission learned in mid September that the Cultural Trust Fund had reached and exceeded the new \$1 million threshold amount. Through additional plate sales and investment interest income, the Trust earned an additional \$70,009.10 from July 1 through September 12, 2006. As of that date, the Trust Fund balance totaled \$1,012,995.75. With September and October traditionally being strong sales months for the Arts Trust plate, the Board believes the Trust Fund balance could exceed \$1,050,000.00 by the end of the calendar year.

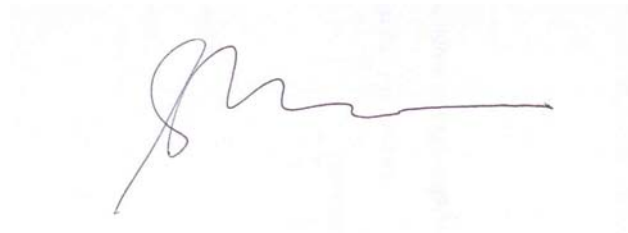
In Summary

While the Indiana Arts Commission Cultural Trust Administrative Board is eager to begin development of programs to enhance cultural and educational opportunities related to the arts in Indiana, it is also carefully analyzing its options. A number of organizations have already requested the IAC immediately begin disbursement of these funds as soon as they become available. The board is weighing this against the option of retaining/reinvesting all or part of the annual disbursement back into the fund for a period of one year. The desire is to further grow the Trust Fund balance to a level where it could serve as leverage to encourage matching private or corporate contributions to the Trust.

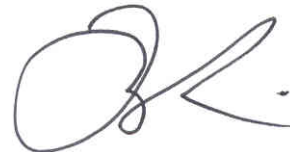
The Board is also reviewing a number of proposals for Board-driven fundraising activities over the course of the next year.

The Cultural Trust Fund Administrative Board is most appreciative of the support shown during the last session to clear the path for Hoosiers to soon realize the fruits of their investments. By FY2008 the Cultural Trust Board will make recommendations to the Indiana Arts Commission for various programs and services through which this additional revenue may be distributed back to Indiana's arts industry and its consumers.

Respectfully submitted for your consideration,

A handwritten signature in dark ink, appearing to read "Steven L. Tuchman", with a long horizontal flourish extending to the right.

Steven L. Tuchman, Esq., Chair

A handwritten signature in dark ink, appearing to read "Lewis C. Ricci", with a large, stylized initial "L" and "R".

Lewis C. Ricci, Executive Director